File

A-1 STEEL AND IRON FOUNDRY (VANCOUVER) LTD.

AND ITS WHOLLY-OWNED SUBSIDIARY

A-1 STEEL AND IRON FOUNDRY LTD.

I'ANCO PRODUCTS

FINANCIAL REPORT

1966

A-1 STEEL AND IRON FOUNDRY (VANCOUVER) LTD.

Incorporated under the Laws of the Province of British Columbia
Vancouver, B.C.

CAPITAL

Authorized—

100,000 Class "A" Shares of No Par Value
180,000 Class "B" Shares of No Par Value

Issued and Fully Paid—

60,000 Class "A" Shares
140,000 Class "B" Shares

OFFICERS

Ernest Charles Warner	Chairman of the Board
John Pollock Stark	President and Chief Executive Officer
Charles Watters	Vice-President and General Sales Manager
Ian Alastair Shaw	Secretary
W. D. Miles Boyd	Director and Sales Manager I'Anco Products
Gordon A. Green	Director
Lovick P. Young	Director and Foundry Manager

BANKERS

BANK OF MONTREAL
Vancouver, B.C.

AUDITORS

Price Waterhouse & Co.
Vancouver, B.C. Chartered Accountants

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company, Vancouver, B.C.

FISCAL AGENTS

E. C. WARNER INVESTMENTS LTD.

THE CHAIRMAN'S REPORT TO THE SHAREHOLDERS

This year I am very proud to tell you that all the hard work and careful planning your full time executive has given to the development of your Company is beginning to pay off. This will make very pleasant reading, so I would like you to relax for a moment and have a glass of wine and a new King Size Player's cigarette.

Last year I had to be very guarded because we were just completing the reorganization of our Company and did not have the wonderful figures to present to you to substantiate everything that had been done. Now I can be very frank about the position of your Company. You will note that our profits have increased in proper proportion to our sales. You may think we have reached the limit, but no, as I write this the latest figures available are for March and show another increase of over $40,000.00 in sales. This will give you some idea of what we are going to accomplish in 1966/67.

In my last report I made reference to the excellent team we have managing your business, headed by our good friend, John Stark. They have worked many hours and given good supervision to night as well as day shifts. Now the time has come when we must reward them, and we have permission from the necessary powers to grant our full time executives options on 15,000 Class "B" shares at $4.25 each, to be taken up at the rate of 20% per annum for the next five years. This I consider very good business, for a Company is only as successful as the men who are the driving force and accomplish these wonderful results. It will be necessary for me to ask you to support me at an Extraordinary General Meeting of the Company, which I propose to call at the same time as our Annual Meeting.

I am also very happy to report to you that although we took a large loan in order to carry out our great expansion we have made such progress in reducing this that the Bank of Montreal has given us permission to resume dividends on our "B" stock. We could not pay these dividends without the permission of the Bank. This I think is very kind in the days of very tight money, and in appreciation our shareholders might keep this action and confidence in our Company in mind when a new account is opened.

Another accomplishment that I am exceedingly proud of is the use of the words on our stationery that our castings are approved by Lloyd's. This is the famous "Lloyd's of London". Our castings met their standards, which are the highest in the world. I have just returned from a quick trip to the Orient with the Banff School of Advanced Management and had the pleasure of visiting about sixteen different factories in Japan and China. Though there is some excellent work in Japan I feel that our quality of castings is superior to anything I saw in that country. In China what I saw would have been scrapped as soon as taken from the mould. This quality control is very important to our customers because if by any chance they could buy a cheaper casting, they cannot buy a better one, which is so important to production.

Eighteen months ago when our Company could not borrow more and we were right in the middle of our crash expansion, E. C. Warner Investments purchased the Bird Aluminum Foundry, which is complementary and managed by A-1, the latter also having an interest in it. We are now investigating the possibility of taking this Company into A-1 Steel one hundred percent. E. C. Warner Investments has so much confidence in the future of A-1 Steel that it is prepared to accept A-1 Steel shares for payment of this business. Now I think with all these facts we can sit back and see our Company develop very quickly. It is our intention to do our next expansion on a slower basis but it is our plan to do this out of retained earnings in a more moderate way.

I want to thank you for supporting me so kindly during the year. We have a very successful business and the big people are always looking around for successful smaller concerns, however for the present our business is not for sale and it never will be without adequate protection for our executives, our shareholders and our developing country. So this time next year with the best products and the best management we hope to have even better results.

E. C. WARNER,
Chairman of the Board.

REPORT OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

It is a pleasure to report, that our third year of operation has once again given the results I had planned and budgeted for.

Sales this past year were double that of the last year of the old company, and are in line with our expected rate of growth.

As we have settled down into our new plant, efficiencies in operation have enabled us to show an acceptable profit picture; and I anticipate that certain planned efficiencies which are still being built in, will enable us to hold the present price structure for the next year — show a substantial profit, and still pay for such new costs as the Canada Pension scheme — and wage increases due to union contracts.

During the last two years we have taken advantage of straight line depreciation (and will do so up to December 31st, 1966) on all new equipment— and this has helped to put us in a position whereby we will pay no income tax this year; it has also given us immediate use of cash so made available to us.

You will note that our long term indebtness is being reduced on schedule and we will continue to meet our obligations as agreed. We have reorganized and added to our Sales Force, and with this additional service to our customers and tight quality control, I am confident that our rate of growth, to capacity of this plant, will be maintained. Beyond capacity, is already a subject of discussion by the Board of Directors, and shareholders will be advised as requirements present themselves, and as our plans are developed.

During the year the remainder of our property (at the old plant) was sold for $83,500. The agreement requires full payment by June 1st, 1966 and this amount will be used to reduce our long term indebtedness.

Once again I must report, with the greatest admiration, the efficient manner in which all members of the staff of A-1 Steel have performed their tasks, and my special thanks go to the heads of departments and those in all departments who have contributed so much to our steady advance.

JOHN P. STARK,
President, and
Chief Executive Officer.

A-1 STEEL AND IRON F

AND SUBSID

CONSOLIDATED BA

FEBRUAR

(With Comparable Balan

ASSETS

	1966	1965
CURRENT ASSETS:		
Cash	$ 30	$ 3,570
Short term bank deposit	45,000	—
Accounts receivable, less allowance of $10,000 for doubtful accounts ($3,000 in 1965)	368,134	316,065
Inventories, at cost which is lower than market	277,841	184,423
Income taxes recoverable	—	49,376
Prepaid expenses and deposits	3,303	1,489
	694,308	554,923
INVESTMENT IN 50%-OWNED COMPANY:		
Bird Foundry Ltd. — shares, at cost	10	10
FIXED ASSETS, at cost:		
Plant buildings and equipment, and other depreciable assets	906,541	806,208
Less—		
Accumulated depreciation	128,147	59,350
	778,394	746,858
Land	56,353	135,580
	834,747	882,438
INCORPORATION AND PRELIMINARY EXPENSES, at cost	12,198	12,198
	$ 1,541,263	$ 1,449,569

APPROVED ON BEHALF OF THE BOARD:

JOHN P. STARK, *Director*

CHARLES WATTERS, *Director*

DRY (VANCOUVER) LTD.
Y COMPANY
NCE SHEET AS AT
28, 1966
s at February 28, 1965)

LIABILITIES

	1966	1965
CURRENT LIABILITIES:		
Bank indebtedness (note 1)	$ 46,548	$ 464,068
Accounts payable and accrued liabilities	129,300	141,604
Dividend payable	9,000	9,000
Current portion of long term indebtedness (Note 1)	60,000	—
7% debentures payable (Note 1)	—	250,000
	244,848	864,672
LONG TERM INDEBTEDNESS (Note 1)	550,000	—
	794,848	864,672

SHAREHOLDERS' EQUITY

	1966	1965
SHARE CAPITAL (Note 2):		
Authorized—		
100,000 Class "A" shares of no par value (redeemable at the option of the company for $12 per share)		
180,000 Class "B" shares of no par value		
Issued and fully paid—		
60,000 Class "A" shares	564,000	564,000
140,000 Class "B" shares	14,000	14,000
	578,000	578,000
RETAINED EARNINGS — per statement attached	168,415	6,897
	746,415	584,897
	$ 1,541,263	$ 1,449,569

AUDITORS' REPORT

To the Shareholders,

A-1 Steel and Iron Foundry (Vancouver) Ltd.:

We have examined the consolidated balance sheet of A-1 Steel and Iron Foundry (Vancouver) Ltd. as at February 28, 1966 and the consolidated statements of earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and retained earnings present fairly the financial position of the companies as at February 28, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

A-1 STEEL AND IRON FOUNDRY (VANCOUVER) LTD.

AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED FEBRUARY 28, 1966

(With a Comparable Statement for the Preceding Year)

	1966	1965
Balance at beginning of year	$ 6,897	$ 84,979
ADD—		
Net earnings for the year — per statement attached	197,518	52,635
	204,415	137,614
DEDUCT—		
Dividends declared—		
Class "A" shares — 60c per share	36,000	36,000
Class "B" shares — 10c per share	—	14,000
	36,000	50,000
Loss on demolition of building	—	74,672
Loss on disposal of land and equipment	—	6,045
	36,000	130,717
Balance at end of year	$ 168,415	$ 6,897

A-1 STEEL AND IRON FOUNDRY (VANCOUVER) LTD.
AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED FEBRUARY 28, 1966
(With a Comparable Statement for the Preceding Year)

	1966	1965
Sales	$ 1,867,963	$ 1,548,284
Cost of sales (Note 4)	1,430,234	1,349,117
Gross profit	437,729	199,167
Selling and administrative expenses (Note 4)	245,030	187,308
	192,699	11,859
Recovery of prior year's income taxes	4,819	40,776
Net earnings for the year (Note 3)	$ 197,518	$ 52,635

Included in cost of sales and selling and administrative expenses above are the following charges (credits):		
Depreciation	$ 69,376	$ 43,004
Interest on borrowed funds	45,239	22,382
Profit on disposals of fixed assets (net)	(3,674)	—
	$ 110,941	$ 65,386

A-1 STEEL AND IRON FOUNDRY (VANCOUVER) LTD.

AND SUBSIDIARY COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT FEBRUARY 28, 1966

NOTE 1:

The company's long-term indebtedness consists of the following:

	Bank loan	7% Debentures	Total
Original borrowing, less in the case of the bank loan $75,000 on deposit in a cash collateral account	$ 500,000	$ 250,000	$ 750,000
LESS— Repayments to date	40,000	100,000	140,000
	460,000	150,000	610,000
LESS— Payments due within twelve months	60,000	—	60,000
	$ 400,000	$ 150,000	$ 550,000

The bank loan bears interest at 6% per annum and is secured by debenture, providing a mortgage on the fixed assets and a floating charge on all other assets of the companies. By arrangement with the bank, the loan is repayable by April 1, 1970, and the bank has agreed to periodic repayments at the rate of $5,000 per month for the present. In 1965, bank indebtedness included a demand loan of $445,000 similarly secured.

The 7% debentures were due and payable September 1, 1965; however, the holders thereof have signed a postponment agreement in connection with the bank loan referred to above subordinating all their rights under these debentures to the bank.

NOTE 2:

(a) At the discretion of the directors, the company's Class "A" shareholders shall be entitled, in any one year, to non-cumulative, preferential cash dividends of 60c per share. Any further dividends declared by the directors shall be paid firstly to the Class "B" shareholders to the extent of 60c per share per annum, and thereafter in equal amounts per share to the Class "A" and Class "B" shareholders.

(b) Any further issues of Class "A" or Class "B" shares must be accompanied by a concurrent issue in like number of shares of the other class.

(c) On February 9, 1966, the directors of the company set aside 15,000 Class "B" shares for issuance at $4.25 per share under a stock option plan for key employees. On the same date the directors granted, subject to ratification by the shareholders of certain measures required to permit the issue of these shares, options for 15,000 Class "B" shares, to officers who are also directors of the company. The options are exercisable, in equal annual numbers, in each of the five years to February 9, 1971.

NOTE 3:

The companies have made no provision for income taxes for the year ended February 28, 1966, partly because of applying against current earnings a loss for income tax purposes incurred in the preceding year and partly because of claiming depreciation for income tax purposes in excess of that recorded in the financial statements. Income taxes otherwise payable have been reduced to the extent of $67,712 for the year ended February 28, 1966 and $149,392 to date as a result of claiming depreciation for tax purposes in excess of that recorded in the financial statements.

NOTE 4:

The total remuneration paid during the year to five directors, representing their salaries as officers of the company, aggregated $55,608. In 1965, two directors received $30,000.

Printed in Canada